

EXHIBIT 29



GOVERNMENT OF PUERTO RICO

Puerto Rico Fiscal Agency and Financial
Advisory Authority

Municipal Secondary Market Disclosure Information Cover Sheet Municipal Securities Rulemaking Board (MSRB) Electronic Municipal Market Access System (EMMA)

THIS FILING RELATES TO A SINGLE BOND ISSUE:

Name of bond issue exactly as it appears on the cover of the Official Statement:

Nine-digit CUSIP* numbers if available, to which the information relates:

THIS FILING RELATES TO ALL OR SEVERAL SECURITIES ISSUED BY THE ISSUER, OR ALL OR SEVERAL SECURITIES OF A SPECIFIC CREDITOR:

Issuer's Name: Employees Retirement System of the Government of the Commonwealth of Puerto Rico

Other Obligated Person's Name (if any): _____

Six-digit CUSIP* number(s): 29216M

TYPE OF INFORMATION PROVIDED:

A. ☒ Annual Financial Information and Operating Data pursuant to Rule 15c2-12

Fiscal Period Covered: 2016-17

B. ☐ Audited Financial Statements or CAFR pursuant to Rule 15c2-12

Fiscal Period Covered: _____

C. ☐ Notice of Failure to Provide Annual Financial Information as Required

I represent that I am authorized by the issuer, obligor or its agent to distribute this information publicly.

/s/ Sebastián M. Torres Rodríguez

Sebastián M. Torres Rodríguez

Puerto Rico Fiscal Agency and Financial Advisory Authority,
as Fiscal Agent for the Commonwealth

Dated: May 1, 2018



EMPLOYEES RETIREMENT SYSTEM OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

ANNUAL FINANCIAL INFORMATION Fiscal Year 2017

Introduction

In connection with the issuance by the Employees Retirement System of the Government of the Commonwealth of Puerto Rico (the "System") of its Senior Pension Funding Bonds (Base CUSIP No. 29216M) and in compliance with Rule 15c2-12, as amended, of the Securities and Exchange Commission, the System has covenanted to file within 305 days after the end of each fiscal year with the Municipal Securities Rulemaking Board ("MSRB") through the Electronic Municipal Market Access System ("EMMA"):

- Core financial information and operating data for the prior fiscal year, including audited financial statements, prepared in accordance with generally accepted accounting principles.
- Material historical quantitative data, including financial information and operating data on the System and information as to revenues, expenditures, financial operations, and indebtedness generally found in the Official Statements prepared in connection with the bond issuances.

Appendix I

Included in Appendix I is the System's Annual Financial Information and Operating Data Report containing data for the past five fiscal years ending on June 30, 2017, as prepared by the System, consisting of material historical quantitative data, including financial information and operating data on the Corporation. The financial and operating data in Appendix I sets forth only the results of actual operations and does not reflect demographic information or forecasts regarding operations, except when necessary to place operating results and other information in context.

The information should be read in conjunction with the Official Statements prepared in connection with the issuance of the bonds. The headings in this report are the same as the headings in the corresponding sections and subsections of the Official Statements. All terms not otherwise defined shall have the respective meanings given to them in said Official Statements.

Note:

The System's audited financial statements for the fiscal year ended June 30, 2017 will be submitted as soon as available.

APPENDIX I¹

EMPLOYEES RETIREMENT SYSTEM OF THE GOVERNMENT OF PUERTO RICO¹

ANNUAL FINANCIAL INFORMATION AND OPERATING DATA REPORT

¹The System is currently subject to a judicial debt restructuring proceeding in accordance with Section 304(a) of the Puerto Rico Oversight, Management and Economic Stability Act ("PROMESA"). 48 U.S.C. §2164. As such, the System is a debtor pursuant to PROMESA Title III. The System hereby discloses that the information contained in this Report is from sources believed to be reliable and accurate. While the information presented is believed to be accurate and reliable, it is prepared without audited, unless otherwise identified as audited. Therefore, unaudited financial data and information used in connection to this Report is likely or prone to change. Likewise, the information therein contained is dated June 30, 2017. Likewise, certain subsequent events impacted the System, its procedures, funds and the employer contributions historically received by the System. Among such events, effective, July 1, 2017, the Government of Puerto Rico enacted the "pay as you go (PayGo)" mechanism for all the Commonwealth's Retirement Systems. With the start of fiscal year 2018, employers' contributions, contributions ordered by special laws and the Additional Uniform Contribution were eliminated and replaced by a monthly PayGo charge to be paid by each agency, public corporation and municipality to cover the cost of payments to current retirees and beneficiaries. In conjunction with the creation of PayGo, on August 23, 2017, the Commonwealth enacted the "Act to Guarantee Pension Payments and Establish a New Defined Contributions Plan for Public Employees" ("Act 106-2017") which provides (among other things) for the creation of a Defined Contribution Plan, similar to a 401(k) plan, guaranteeing the individual employee contributions of certain active participants of the System, JRS and TRS. All information contained herein is from sources believed to be reliable and accurate.

THE EMPLOYEES RETIREMENT SYSTEM OF THE GOVERNMENT OF PUERTO RICO

General

The Employees Retirement System of the Government of Puerto Rico (“System”) is a statutory trust created by Act 447 of 1951 (“Enabling Act”, as amended) to provide retirement and disability annuities, death benefits and loans to Puerto Rico’s public employees. Persons eligible to become members of the System (“Members”) include: (i) all persons holding regular employment positions in any executive department, agency, administration, board, commission, committee, office or instrumentality of the Executive Branch of the Government of the Commonwealth; (ii) all members and regular employees of the Legislative Branch of the Government of Puerto Rico; (iii) all officers and regular employees of the municipalities of the Commonwealth; and (iv) all officers and regular employees of certain public corporations. As of June 30, 2017, the System had 230,795 members, 116,377 of which were retirees, disabled and beneficiaries currently receiving benefits and 114,418 of which were current active participating employees.

The Puerto Rico Government Employees and Judiciary Retirement Systems Administration administer two separate retirement plans for the System: a defined benefit pension plan and a defined contribution pension plan. In the defined benefit plan, members are entitled to retirement benefits which are defined and determinable in advance by law. Members who entered the System, on or before December 31, 1999 participate in the defined benefit plan. On the other hand, the defined contribution plan is a retirement plan that provides for an individual account for each participant of the plan and for benefits based solely upon the amounts contributed from such participant account. Members who entered the System on or after January 1, 2000 participate in the defined contribution plan.

On April 4, 2013, the Legislature enacted Act 3-2013. This legislation reformed the System comprehensively and was established to address the growing funding shortfalls which threatened the long-term viability of the System. However, on June 30, 2016, President Obama signed the Puerto Rico Oversight, Management and Economic Stability Act (“PROMESA”). Among other things, PROMESA (i) established an oversight board with broad authority over the finances of Puerto Rico and its instrumentalities (the “Oversight Board”), (ii) granted a temporary stay on creditor lawsuits (which expired on May 1, 2017), and (iii) provided Puerto Rico and its instrumentalities access to two orderly mechanisms to restructure their debts. On May 21, 2017, the Oversight Board filed a petition under Title III of PROMESA on behalf of the System.

Governance

Control of the governance and operation of the Systems was vested in the Board of Trustees (the “Board”) which sated policy and over-seeded the operations of the Trust in accordance with applicable laws. The Board of Trustees was comprised of (11) members, which included the Puerto Rico Secretary of the Treasury, the President of the Government Development Bank for Puerto Rico, the Commissioner of Municipal Affairs, and the Director of the Office of Training and Labor Affairs Advisory and Human Resources Administration of the Government of Puerto Rico as ex officio members. Five (5) members were appointed to three (3) year terms by the Governor of Puerto Rico. Of the three (3) active participants, two (2) are

members of the Government Employees' Retirement System, and the other a member of the Judiciary's Retirement System, with at least ten (10) years of credited service on the date of their appointment. The other two (2) members are retirees from each System; one from the Government Employees' Retirement System and the other from the Judiciary's Retirement System. The remaining two (2) members were the President of the Federation of Mayors and the President of the Puerto Rico Association of Mayors. The Board was also responsible for appointing the Administrator of the Systems (the "Administrator").

As of June 30, 2017, the Board consisted of the following members:

<u>Name</u>	<u>Position on the Board</u>
<i>Yesenia Mojica Figueroa</i>	Representative of Active Members of the Government Employees' Retirement System and President of the Board
<i>Sonia I. Vélez Colón, Esq.</i>	Representative of Retirees of the Judiciary's Retirement System and Vice-president of the Board
<i>Eva Ramos de Reyes, Esq.</i>	Representative of Retiree Members of the Government Employees' Retirement System and Secretary of the Board
<i>Gerardo José Portela Franco</i> Executive Director of the Fiscal Agency and Financial Advisory Authority	Ex-officio Member
<i>Hon. Raúl Maldonado Gautier</i> Secretary of the Department of Treasury	Ex-officio Member
<i>Omar Negrón Judice</i> Commissioner of Municipal Affairs	Ex-officio Member
<i>Nydzá Irizarry Algarín, Esq.</i> Director Office of Administration and Transformation of Human Resources of the Government of Puerto Rico	Representative of Active Members of the Government Employees' Retirement System
<i>Hon. Erik J. Ramírez Nazario</i>	Representative of Active Members of the Judiciary's Retirement System
<i>Julia M. Delgado, MSW</i>	Representative of Active Members of the Government Employees' Retirement System
<i>Hon. Rolando Ortiz Velázquez</i> President of the Puerto Rico Mayors Association and Mayor of the Municipality of Cayey	Member

<u>Name</u>	<u>Position on the Board</u>
Hon. Carlos Molina Rodríguez President of the Puerto Rico Mayors Federation and Mayor of the Municipality of Arecibo	Member

However, on August 2017, the Government of Puerto Rico enacted, Act 106 -2017 which altered the governance structure of the System by replacing the System's Board of Trustees with the Retirement Board of the Government of Puerto Rico, which is comprised of thirteen (13) members: five *ex officio members*, four representatives of the public interest, a representative from the Department of Education, a representative from the Judicial Branch appointed by the Supreme Court, the President of the Puerto Rico Mayors Federation and the President of the Puerto Rico Mayors Association. The Retirement Board of the Government of Puerto Rico also state policy and oversees the operations and future externalization of the System operations in accordance with applicable law. As of the 1st day of May, 2017, the Retirement Board of the Government of Puerto Rico is currently comprised of the following members:

<u>Name</u>	<u>Position on the Board</u>
Gerardo José Portela Franco <i>Executive Director of the Fiscal Agency and Financial Advisory Authority</i>	President
Hon. Raúl Maldonado Gautier <i>Secretary of the Department of Treasury</i>	Member
José Iván Marrero, Esq. <i>Director of The Office of Management and Budget of Puerto Rico</i>	Member
Nydzá Irizarry Algarín, Esq. <i>Executive Director for the Office of Administration and Transformation of Human Resources of the Government of Puerto Rico</i>	Member
Hon. Rolando Ortiz Velázquez <i>President of the Puerto Rico Mayors Association and Mayor of the Municipality of Cayey</i>	Member
Hon. Carlos Molina Rodríguez President of the Puerto Rico Mayors Federation and Mayor of the Municipality of Arecibo	Member
Dr. Reinaldo del Valle	Representative of the Teachers of the Department of Education.

<u>Name</u>	<u>Position on the Board</u>
<i>Jesus M. Rodríguez Rosa, MIS</i>	Representative of the public corporations.
Vacant	Representative of the Judiciary's Retirement Branch
<i>Dr. Edward Moreno</i>	Representative of Public Interest who will be a Pensioner Teacher from the Teachers' Retirement System
Vacant	Representative of Public Interest who will be a Pensioner Retired from Government of Puerto Rico Employees' Retirement System
Vacant	Representative of public interest who will be a member of the Puerto Rico Police Department.
Vacant	Representative freely chosen by the Governor

Management

A. Administrator

Luis Manuel Collazo Rodríguez, Esq. is the Administrator of the Puerto Rico Government Employees and Judiciary Retirement Systems Administration. He was appointed on April 28, 2017. Prior to his appointment, Mr. Collazo Rodríguez served for three (3) years as in-house counsel for the Legal Department of the Puerto Rico Government Employees and Judiciary Retirement Systems Administration. Mr. Collazo Rodríguez received a Bachelor's degree in Political Science from the Interamerican University of Puerto Rico, Metropolitan Campus and a Juris Doctor from the School of Law at the Interamerican University of Puerto Rico.

B. Deputy Administrator

Mr. Fernando Marte was appointed Deputy Administrator on March 7, 2018. Prior to his appointment, Mr. Marte was the System Auxiliary Administrator and assistant manager for the secondary market of the Loans Department. Marte received a B.A. in Business Administration and Accounting from the Colegio Universitario del Este, Carolina Campus.

C. Finance Auxiliary Director

Mrs. Cecile Tirado Soto is the Finance Auxiliary Director of the Puerto Rico Government Employee and Judiciary Retirement System Administration. From 2009, Mrs. Tirado served as System Comptroller. Mrs. Tirado received a BBA Mayor in Accounting from the University of Puerto Rico, Rio Piedras Campus. She has been an employee of the System since 1992 and has been a member of the Finance Department since 1994.

D. General Counsel

On June 2017, Mrs. Bibiana Sarriera Requena was appointed General Counsel of the Puerto Rico Government Employees Retirement System and Judiciary Retirement Systems Administration. Prior to her appointment, Mrs. Sarriera-Requena served as counsel for a publicly traded bank. Mrs. Sarriera-Requena received a B.A. and a *Juris Doctor* from the University of Puerto Rico, Río Piedras Campus.

Other post-employment benefits

Commencing with fiscal year 2014, which began on July 1, 2013, the Commonwealth was required, pursuant to Government Accounting Standards Board (“GASB”) Statement Number 67, to calculate and record for financial accounting purposes the cost of non-pension post-retirement benefits provided to former government employees using actuarial principles, in substantially the same way that it calculates and records pension benefits provided to such employees. These benefits currently include, per retiree and beneficiary, an annual one hundred dollars (\$100) bonus to cover pharmaceutical costs, a monthly one hundred dollars (\$100) reimbursement to cover medical insurance premiums, and an annual Christmas bonus of two hundred dollars (\$200). Currently, the Commonwealth records these costs on a cash basis. Although this required calculation will not have a cash impact on the government of Puerto Rico beyond what it currently pays, it will be reflected in the financial statements of the Government of Puerto Rico and may highlight the long-term costs of providing these benefits.

Also commencing with fiscal year 2015, which began on July 1, 2014, the Commonwealth was also required, pursuant to Government Accounting Standards Board (“GASB”) Statement Number 68, to provide information about the effects of pension-related transactions and other events on the elements of the basic financial statements of state and local governmental employers. This information shall assist users in assessing the relationship between a government’s inflows of resources and its total cost (including pension expense) of providing government services each period. Also is to provide users with information about the government’s pension obligations and the resources available to satisfy those obligations.

GOVERNMENT EMPLOYERS CONTRIBUTING TO THE SYSTEM

As of June 30, 2017, the System had 205 Government Employers that were required by law to contribute to the System. These were classified by the System into three (3) categories on the basis of whether their Employer Contributions are made by the Treasury Department or by the Government Employer itself: (i) agencies and departments of the central government (excluding the Police Department), which make their Employer Contributions through the Treasury Department, (ii) public corporations and the Police Department (an agency of the central government), which make their Employer Contributions directly, and (iii) municipalities, which also make their Employer Contributions directly. These represented 31%, 45% and 24%, respectively, of total Employer Contributions in fiscal year 2017.

The following table shows Employer Contributions, net of contributions made in connection with early retirement programs, for the five-year period ended June 30, 2017.

Entities	2012-13	2013-14	2014-15	2015-16	2016-17
Central Government*	201,888,194	283,397,834	277,306,932	276,938,488	233,059,876
Public Corporations*	147,334,809	110,151,037	109,851,170	204,983,949	342,212,713
Municipalities	75,480,907	91,565,245	92,752,660	97,758,927	181,935,188
Total	\$424,703,910	\$485,114,117	479,910,762.36	\$579,681,364	\$757,207,777

Source: Employees Retirement System.

(*) Even though the Police Department is an agency of the central government and not a public corporation, the System has historically accounted for the Employer Contributions made by the Police Department as Employer Contributions made by public corporations. This table reflects that custom and includes the Police Department with public corporations. This table was revised since the numbers provided earlier were Preliminary. For Fiscal Year 2013 and 2014, there were an adjustment for an allowance for Corporations Fiscal Years 2015-2016 and 2016-2017 are not audited and may subject to change.

As of June 30, 2017, Participating Government Employers are funded from several sources: Commonwealth income and other taxes deposited in the Commonwealth's General Fund, funds provided by the Federal government, internally generated funds (in the case of public corporations) and other sources.

Government Employers with Highest Covered Payroll

The table below shows the ten (10) Government Employers with the highest participating employees and covered payroll as of June 30, 2017. Also, the table sets forth whether the entity is an agency or department of the central government, a public corporation, or a municipality, the total Employer Contributions, and the share of total Employer Contributions represented by such instrumentality as of June 30, 2017.

Entity	Classification	Participating Employees June 30, 2017	Covered Payroll June 30, 2017	Employer Contribution June 30, 2017	% of Total Employer Contribution June 30, 2017
Police Department	Central Government	14,638	496,223,444	89,706,913	11.85%
Education Department	Central Government	13,880	268,673,741	41,596,345	5.49%
Correctional Facilities Administration	Central Government	7,201	178,509,692	27,639,622	3.65%
State Insurance Fund Corporation	Public Corporation	3,129	175,837,844	59,287,472	7.83%
Administration of Court Facilities	Central Government	4,919	140,466,411	21,780,225	2.88%
Aqueduct and Sewer Authority	Public Corporation	4,874	136,309,548	42,567,154	5.62%
Health Department	Central Government	4,920	24,050,389	21,780,225	2.88%
Municipality of San Juan	Municipality	4,823	132,424,507	42,567,154	5.62%
PR Highway Authority	Central Government	1,499	47,766,247	17,165,543	2.27%
ASEM	Central Government	1,754	57,053,445	18,249,799	2.41%
Sub-Total		61,637	\$ 1,657,315,269	\$ 382,340,452	50.49%
Other Government Employers		52,781	\$ 1,499,196,393	374,867,325	49.51%
Total		114,418	\$ 3,156,511,662	\$ 757,207,777	100.00%

Source: Employees Retirement System

- (1) Education Department's employees who participate in the System are those who are not teachers. Teachers participate in the Teachers Retirement System.
- (2) Judges are not included in the Administration of Court Facilities.

The Puerto Rico Treasury Department makes Employer Contributions on behalf of the agencies and departments of the central government, except the Police Department, and on behalf of certain public corporations. The Police Department, the remaining public corporations and the municipalities pay their Employer Contributions to the System directly.

Prior to July 1, 2017, the System receives approximately 86% of Employer Contributions within 15 days of the date due and in excess of 97% of Employer Contributions within the year the contribution is due. The Act grants the System the authority to compel payments from Government Employers and provides that failure to remit the Employer Contributions on time constitutes a misdemeanor. Additionally, Act 16 of 2011 provides the System with the ability to issue a debt certificate against municipalities that are over thirty (300 days past due in their remittances to the System. A debt certificate is sent to the CRIM (Spanish acronym for *Centro de Recaudación de Ingresos Municipales*) and to the Treasury Department for payment to the System. As of June 30, 2017, these employers' aggregate unpaid obligations totaled approximately \$398 million. The System continues to pursue the collection of outstanding amounts and to ensure that future payments are made in a timely manner.

Puerto Rico Police Department

The Puerto Rico Police Department (the “Police Department”) is the official territorial police force of the government of Puerto Rico. As of June 30, 2017, the Police Department had 14,638 participating employees, with an average annual salary of \$33,900. For fiscal year ending June 30, 2017, the Police Department’s average monthly contribution to the System for the benefit of its employees was approximately \$ 7.4 million.

Puerto Rico Education Department

The Puerto Rico Education Department (the “Education Department”) is responsible for the administration and funding of the public-school system of the Commonwealth. The Secretary of Education, a member of the Governor’s cabinet, is the head of the Education Department.

As of June 30, 2017, the Education Department had 48,310 employees. Of the total headcount, 34,430 were teachers. Public school teachers do not participate in the System but rather in the Teachers Retirement System, which was one of the other four retirement systems that cover Puerto Rico’s public employees. Only those employees of the Education Department who are not teachers, or as they are known in Spanish “*empleados no docentes*,” are members of the System. As of the above date, the Education Department had 13,880 participating employees with an average annual salary of \$19,357 for fiscal year ending June 30, 2017. For fiscal year ending June 30, 2017 the Education Department’s average monthly contribution to the System for the benefit of its employees was approximately \$3.4 million.

Administration of Correctional Facilities

The Administration of Correctional Facilities of Puerto Rico (the “Administration of Correctional Facilities”) regulates and oversees the operation and administration of the Commonwealth’s correctional and penitentiary system.

As of June 30, 2017, the Administration of Correctional Facilities had 7,201 participating employees, with an average annual salary of \$24,790. For fiscal year ending June 30, 2017, the Administration of Correctional Facilities’ average monthly contribution to the System for the benefit of its employees was approximately \$2.3 million.

State Insurance Fund Corporation

The State Insurance Fund Corporation (“SIFC”) is a public corporation created to administer the Workmen’s Compensation Act of Puerto Rico. SIFC provides medical services to public and private employees who have suffered occupational injuries. SIFC has broad powers, including the authority to conduct all of its business, invest its funds and own real estate.

As of June 30, 2017, SIFC had 3,129 participating employees, with an average annual salary of \$56,196. For fiscal year ending June 30, 2017, SIFC’s average monthly contribution to the System for the benefit of its employees was approximately \$4.9 million.

Health Department

The Puerto Rico Health Department (the “Health Department”) is responsible for promoting and ensuring the health and well-being of all residents of Puerto Rico. The Health Department is headed by the Secretary of Health, who is also a member of the Governor’s Cabinet. Among the powers granted to the Health Department are (i) the authority to regulate all medical facilities in the Commonwealth; (ii) the administration and operation of public health facilities, including the Commonwealth’s biggest medical facility, the Medical Center in San Juan; (iii) the administration of financial and nutritional assistance programs; and (iv) the funding and administration of the public health insurance system.

As of June 30, 2017, the Health Department had 4,920 participating employees, with an average annual salary of \$24,642. For fiscal year ending June 30, 2017, the Health Department’s average monthly contribution to the System for the benefit of its employees was approximately \$1.7 million.

Administration of Court Facilities

The Office of Administration of Court Facilities (the “Administration of Court Facilities”) is a governmental entity that assists the Chief Justice of the Puerto Rico Supreme Court in the administration of the Judicial System of the Commonwealth. The Commonwealth’s Constitution grants the Chief Justice of the Supreme Court of Puerto Rico authority over the Judicial System of the Commonwealth. In order to carry out his responsibilities, the Chief Justice may delegate some of his powers to the Executive Director of the Administration of Court Facilities. The Executive Director of the Administration of Court Facilities is responsible for the daily operations of the Judicial System.

As of June 30, 2017, the Administration of Court Facilities had 4,919 participating employees. The total average annual salary of the employees is \$28,555. Judges do not participate in the System. For fiscal year ending June 30, 2017, the Administration of Court Facilities’ average monthly contribution to the System for the benefit of its employees was approximately \$1.8 million.

Municipality of San Juan

The Municipality of San Juan (“San Juan”) is the capital of the Commonwealth and the most populous of the 78 municipalities. San Juan is the economic center of the Commonwealth. Most major local banks’ headquarters, as well as many hotels, are located at San Juan.

As of June 30, 2017, San Juan had 44,823 participating employees, with an average annual salary of \$27,456. For fiscal year ending June 30, 2017, San Juan’s average monthly contribution to the System for the benefit of its employees was approximately \$3.5 million.

Puerto Rico Highway Authority

The Puerto Rico Highway Authority is the governmental entity responsible for the construction, operation and maintenance of Puerto Rico toll road network, mayor highway and mass transportation.

As of June 30, 2017, the Puerto Rico Highway Authority had 1,499 participating employees, with an average annual salary of \$31,865. For fiscal year ending June 30, 2017, the Treasury Department's average monthly contribution to the System for the benefit of its employees was approximately \$1.4 million.

Medical Service Administration (ASEM)

The Medical Service Administration is the governmental entity responsible for providing special health services to patients, consumer and educational institutions.

As of June 30, 2017, the PR Highway Authority had 1,499 participating employees, with an average annual salary of \$31,865. For fiscal year ending June 30, 2017, the Justice Department's average monthly contribution to the System for the benefit of its employees was \$1.5million.

Puerto Rico Aqueduct and Sewer Authority

The Puerto Rico Aqueduct and Sewer Authority ("PRASA") owns and operates the Commonwealth's public water supply and sanitary sewer systems. Similar to other Commonwealth public corporations, PRASA has broad powers, including the authority to invest its funds and own real estate.

As of June 30, 2017, PRASA had 4,874 participating employees, with an average annual salary of \$27,966. For fiscal year ending June 30, 2017, PRASA's average monthly contribution to the System for the benefit of its employees was approximately \$3.7 million.

The following table shows the number of participating employees of each of the 10 major contributors to the System for the four-year period ended June 30, 2016 and last year ended June 30, 2017:

Entity	Classification	2013	2014	2015	2016	2017
Puerto Rico Police Department	Central Govt	15,161	14,829	14,552	14,243	14,638
Puerto Rico Education Department	Central Govt	14,683	13,559	13,528	12,818	13,880
Correctional Facilities Adm	Central Govt	7,155	7,277	7,159	6,905	7,201
State Insurance Fund Corporation	Public Corp	3,367	3,198	3,162	3,086	3,129
Administration of Court Facilities	Central Govt	5,094	5,111	4,949	4,825	4,919
Health Department	Central Govt	5,110	4,999	4,848	4,727	4,925
Municipality of San Juan	Municipality	5,404	4,766	4,585	4,475	4,823
PR Highway Authority	Central Govt	2,047	2,177	2,575	2,483	1,499
ASEM	Central Govt	1,911	1,770	1,754	1,711	1,754
Aqueduct and Sewer Authority	Public Corp	4,879	4,955	4,910	4,728	4,874

This table was revised since the numbers provided earlier were preliminary

Source: Employees Retirement System

ADDITIONAL INFORMATION RELATING TO THE SYSTEM

General

As mentioned before, the System is a statutory trust created pursuant to Act 447 of 1951 to provide retirement and disability annuities, death benefits, and loans to certain Puerto Rico's public employees. Persons eligible to become members of the System (the "Members") include: (i) all persons holding regular positions in any executive department, agency, administration, board, commission, committee, office or instrumentality of the Executive Branch of the Government of the Commonwealth; (ii) all members and regular employees of the Legislative Branch of the Government of the Commonwealth; (iii) all officers and regular employees of the municipalities of the Commonwealth; and (iv) all officers and regular employees of participating public corporations. As of June 30, 2017, the System's active membership totaled approximately 114,418 participating employees, with a total of 116,377 retirees, beneficiaries and disabled as of such date.

Changes in the structure of the System

At its inception, the System was structured as a defined benefit plan. In a defined benefit plan, the members of the plan are entitled to retirement benefits which are defined and determinable. Those retirement benefits could be, as it was the case of the System prior to the 1999 amendments, previously defined by a statute. As of June 30, 2017, the System had 230,795 members were participating employees, retirees, beneficiaries and disabled, and, therefore, entitled to receive retirement benefits that were expressly defined in the Act.

In February 1990, the Act was amended to reduce future pension liabilities of the System. Said amendments provided, among other things, for an increase in the level of contributions to the System and limited the retirement benefits for new Members by increasing the number of years of service required for vesting certain benefits and reducing the level of benefits in the case of early retirement. Disability and death benefits were also reduced for new Members as a result of these amendments.

In 1999, the Act was further amended to provide that all persons who became Members of the System on or after January 1, 2000, would no longer be entitled to participate in the defined benefit plan, and would instead participate in a defined contribution plan established by such amendment to the Act. A defined contribution plan is a retirement plan that provides for an individual account for each participant and for benefits based solely upon the amount contributed to the participant's account and any income, expenses, gains and losses, and any forfeiture of accounts of other participants which may be allocated to such participant's account. This change in the structure of the System responded primarily to the need of the System to address its large actuarial deficit. At June 30, 2017, defined contribution membership within the System's consisted of active participating employees.

Among the factors that contributed to the deficit were: (i) the historical undercapitalization of the System, (ii) increases in certain post-employment benefits were not properly funded and (iii) the System assets have consistently been insufficient to satisfy the System's obligations.

Notwithstanding all the above, legislative and administrative measures directed to addressing the funding shortfall of the Retirement Systems, the funding situation of the Employees Retirement System presented a serious long-term challenge that required more urgent and sweeping changes to improve the financial health and long-term viability of the Employees Retirement System. Accordingly, in 2013, the Government of Puerto Rico enacted legislation that sought to reform the System by, among other measures, reducing benefits, increasing employee contributions, and, in the case of active employees who were entitled to the defined benefits program, replacing most of the defined benefit elements of the system with a defined contribution system. The most important aspects of Act 3-2018 are the following:

1. With respect to active employees who are Act 447 Participants and Act 1 Participants, all retirement benefits accrued through June 30, 2013 will be frozen, and thereafter all future benefits will accrue under a defined contribution formula which will be paid at retirement through a lifetime annuity.
2. The retirement age for Act 447 Participants shall gradually increase from age 58 to age 61.
3. The retirement age for current System 2000 Participants shall increase gradually from age 60 to age 65.
4. The retirement age for new employees is increased to age 67, except for new state and municipal police officers, firefighters, and custody officers, which will be age 58.
5. The employee contribution will be increased from 8.275% to 10%.
6. For System 2000 Participants the retirement benefits will no longer be paid as a lump sum payment and instead will be paid in the form of a life time annuity.
7. In terms of post-employment benefits, the Christmas bonus payable to current retirees is reduced from \$600 to \$200 (and is eliminated for future retirees) and the summer bonus is eliminated. Future retirees will not receive any post-employment benefits.
8. Disability benefits will be eliminated and substituted for a mandatory disability insurance policy.
9. Survivor benefits shall be modified.

SUBSEQUENT EVENTS

A. Puerto Rico Oversight, Management, and Economic Stability Act (“PROMESA”)

On June 30, 2016, President Obama signed the Puerto Rico Oversight, Management, and Economic Stability Act (“PROMESA”). Among other things, PROMESA (i) established an oversight board with broad authority over the finances of Puerto Rico and its instrumentalities (the “Oversight Board”), (ii) granted a temporary stay on creditor lawsuits (which expired on May 1, 2017), and (iii) provided Puerto Rico and its instrumentalities access to two orderly mechanisms to restructure their debts.

The two debt adjustment mechanisms established by PROMESA consist of (i) Title VI of PROMESA, which establishes a largely out-of-court debt restructuring process through which modifications to financial debt can be accepted by a supermajority of creditors; and (ii) Title III of PROMESA, which establishes an in-court debt restructuring process substantially based upon incorporated provisions of the U.S. Bankruptcy Code (including automatic stay and cram-down provisions).

From May through July 2017, the Oversight Board commenced Title III proceedings for the Government of Puerto Rico, the Puerto Rico Sales Tax Financing Corporation, the Highways & Transportation Authority, the Employees Retirement System of the Government of the Commonwealth of Puerto Rico and the Puerto Rico Electric Power Authority by filing petitions for relief under Title III of PROMESA. On May 11, 2017, the United States Supreme Court designated Judge Laura Taylor Swain, a United States District Judge, to preside over all Title III cases. All Title III cases are still ongoing and have been consolidated for procedural purposes.

On May 21, 2017, the Oversight Board filed a petition under Title III of PROMESA on behalf of the System. As part of that proceeding, on July 21, 2017, the Oversight Board filed a complaint (“Declaratory Relief Action”) on behalf of the System challenging the validity, priority, extent, and enforceability of bonds issued by the System. The bondholders have filed counter-claims against the System. The Court has ordered the System to make monthly interest payments from a Prepetition Segregated Account until the Court renders a ruling with respect to the dispositive motions filed by the Parties in the Declaratory Relief Action.

B. Puerto Rico Emergency Moratorium and Financial Rehabilitation Act, Puerto Rico Fiscal Responsibility and Financial Emergency Act and Related Executive Orders

On April 6, 2016, the Government of Puerto Rico enacted Act No. 21-2016, known as the Puerto Rico Emergency Moratorium and Rehabilitation Act (as amended, the “Moratorium Act”). Pursuant to the Moratorium Act, the then Governor, García Padilla adopted a series of executive orders declaring an emergency period, a moratorium and various other measures with respect to certain obligations of the Government of Puerto Rico and several of its instrumentalities, including the System.

Pursuant to such executive orders, said entities have not made debt service payments, have done so with moneys on deposit with the trustees of their bonds, and/or have not received or transferred certain revenues. Such executive orders also placed significant restrictions on the disbursement of funds deposited at government Development Bank (“GDB”) and suspended the

disbursement of loans by GDB. These executive orders restricted the System's ability to withdraw any funds held on deposit at GDB and to receive any disbursements on loans granted by GDB. These executive orders also suspended the obligation of the Commonwealth to transfer certain revenues previously allocated to the System.

On January 29, 2017, Governor Rosselló Nevares signed into law Act No. 5-2018, known as the Puerto Rico Fiscal Responsibility and Financial Emergency Act (as amended, "Act 5"), which repealed certain provisions of the Moratorium Act and authorized additional emergency measures. Pursuant to Act 5, however, the executive orders issued under the Moratorium Act would continue in effect until amended, rescinded or superseded. The emergency period under Act 5 will expire June 30, 2018, unless extended by the Governor. Some additional powers provided to the Governor through Act 5 include: authority to exercise receivership powers to rectify the financial emergency, exercise general supervisory control over the functions and activities of all government entities within the Executive Branch, and issue executive orders to implement and enforce compliance with Act 5.

The Government has not included appropriations for the payment of debt service in its general fund budget since fiscal year 2017, as the payment of such obligations has been suspended pursuant to the Moratorium Act and Act 5.

C. Impact of Hurricanes Irma and Maria

Hurricane María made landfall in Puerto Rico on September 20, 2017, bringing sustained winds of 155 miles-per-hour and significant rainfall over a 30-hour period. Hurricane María crossed Puerto Rico diagonally, entering through the Southeast and exiting through the Northwestern region. The hurricane caused catastrophic destruction in Puerto Rico, including severe damage to the electric power system, and left the island completely without power. Only two weeks prior to Hurricane María, Hurricane Irma—one of the strongest hurricanes ever recorded in the Atlantic—passed by Puerto Rico's north coast, substantially impairing an already weak infrastructure.

As result of Hurricane María, the System headquarters suffer major damages. In order to continue operations, the System had to relocate its offices and as such, the System entered into a lease agreement with the Puerto Rico Public Buildings Authority. The relocation of the System offices has caused the System to negotiate some additional contracts and eliminate others related to auxiliary services. Management of the System is in the process of determining the extent of damages.

D. PayGo Pension Reform

On June 23, 2017, the Legislature approved Joint Resolution 188, which among other things, ordered the System, the Judiciary Retirement System ("JRS"), and the Teachers Retirement System ("TRS") to liquidate their assets and pass the net proceeds to the Treasury Department of the Commonwealth. On June 27, 2017, the Treasury Department issued Circular Letter No. 1300-46-17 to convey to central government agencies, public corporations and municipalities the implementation procedures to adopt, effective, July 1, 2017, for the new "pay-as-you-go (PayGo)" mechanism for all the Commonwealth's Retirement Systems. With the start of fiscal year 2018, employers' contributions, contributions ordered by special laws and the Additional Uniform Contribution were eliminated and replaced by a monthly PayGo charge to be paid by each agency,

public corporation and municipality to cover the cost of payments to current retirees and beneficiaries.

In conjunction with the creation of PayGo, on August 23, 2017, the Commonwealth enacted the “Act to Guarantee Pension Payments and Establish a New Defined Contributions Plan for Public Employees” (“Act 106-2017”) which provides (among other things) for the creation of a Defined Contribution Plan, similar to a 401(k) plan, guaranteeing the individual employee contributions of certain active participants of the System, JRS and TRS. In addition, under Act 106-2017, the Commonwealth makes pension and benefit payments to current retirees and beneficiaries of the System. Act No. 106-2017 also altered the governance structure of the System by replacing the System’s Board of Trustees with the Retirement Board of the Government of Puerto Rico comprised of 13 members: five (5) *ex-officio* members, four (4) representatives of the public interest, a representative from the Department of Education, a representative from the Judicial Branch appointed by the Supreme Court, the President of the Puerto Rico Mayors Federation and the President of the Puerto Rico Mayors Association.

E. Ratings Downgrades

On June 24, 2016, Fitch downgraded from “CC” to “C” the System bonds and placed them on “negative” outlook due to the likelihood of a debt restructuring, deferral or default. Soon after the missed payments of July 1, 2016 S&P and Fitch downgraded to the lowest level of “D” the Senior Pension Bonds. On April 6, 2017, Moody’s downgraded the System bonds to a level C rating from its previous ratings of Ca and Ca, respectively.

F. Title III Proceedings and Bondholder Litigation

On May 21, 2017, the Oversight Board filed a petition for under Title III of PROMESA on behalf of the System.

As part of that proceeding, on July 21, 2017, the Oversight Board filed a complaint on behalf of the System challenging the validity, priority, extent, and enforceability of bonds issued by the System (“Declaratory Relief Action”). The bondholders have filed counter-claims against the System. The Court has ordered the System to make monthly interest payments from a Prepetition Segregated Account.

On July 27, 2017, System Bondholders, filed a complaint against the Commonwealth, the FOMB, AAFAF, the System, the Governor of Puerto Rico and the Treasury Secretary challenging Joint Resolution 188 and Act 106-2017 (the “PayGo Legislation”).

The Commonwealth and the System intend to defend these cases vigorously.

SUMMARY OF HISTORICAL ACCOUNTING DATA
(dollars in thousands)

	Fiscal Year Ended June 30,				
	2013	2014	2015	2016	2017
Additions ⁽¹⁾	\$1,219,191	\$1,329,428	\$1,063,454	\$1,224,633	\$1,344,730
Deductions ⁽²⁾	1,722,779	1,963,819	1,812,392	1,822,245	1,823,581
Net (Decrease) Increase ⁽³⁾	-503,588	-634,391	-748,938	-597,612	-478,851
Net Assets	715,057	80,666	(668,272)	(1,265,885)	(1,744,736)
Total Assets	3,979,618	3,430,667	2,696,769	2,305,339	1,897,080
Total Cash and Investments ⁽⁴⁾	\$ 3,174,603	\$ 2,794,382	\$ 1,759,729	\$ 1,407,112	\$ 947,097

Source: Audited Financial Statements of the Employees Retirement System (2013-2015)

Preliminary Unaudited Financial Statements of the Employees Retirement System (2016-2017)

- (1) Additions consist of employer and employee contributions, investment income, special law contributions, insurance premiums on loans to members and other income.
- (2) Deductions include retirement and disability annuities, death and other benefits, refunded employer contributions, refunded participating employee contributions, insurance claims on loans to plan members and general, administrative and interest expenses.
- (3) Net (Decrease) Increase is equal to the excess of revenues over expenses reduced by net amounts transferred to other retirement systems.
- (4) Investments are comprised of interest bearing accounts, marketable securities and Bond issue Costs. This amount reflects the fair market value of investments, net of premiums and discounts.

Summary of Benefits Paid by the System

The following table sets forth the amounts and types of benefits paid by the System during the five-year period ended June 30, 2017:

BENEFITS SUMMARY

	2013	2014	2015	2016	2017
Annuity Benefits ⁽¹⁾	\$1,216,058	\$1,295,297	\$1,337,848	\$1,322,408	\$1,318,347
Death Benefits	10,012	24,438	17,340	13,558	10,064
Special Laws	<u>203,943</u>	<u>228,699</u>	<u>186,136</u>	<u>197,126</u>	<u>194,828</u>
Total	\$1,430,013 ✓	\$1,548,434 ✓	\$1,541,324 ✓	\$1,533,092 ✓	\$1,523,239

Source: Audited Financial Statements of the Employees Retirement System (2013-2015)

Preliminary Unaudited Financial Statements of the Employees Retirement System (2016-2017)

- (1) Annuity Benefits consist of the original retirement, merit and disability annuities.
- (2) Law 127 provides for the payment of death and disability benefits for certain employees of the Police Department, the Firefighters Corp, the Administration of Correctional Facilities, the Puerto Rico National Guard and the Treasury Department.

This table was revised since the numbers provided earlier were preliminary

Loans

By a determination of the Board of Trustees and the administration, since November 15, 2016, the loan department is not offering new loans.

Since November 2016, the loan department has been focus on the servicing of the loan portfolio.

During FY 2011-12 the System sold approximately \$225 million of its personal loan portfolio to a financial institution, while retaining the servicing of the portfolio.

During FY 2012-13 the System sold approximately \$88 million of its personal loan portfolio to a financial institution, while retaining the servicing of the portfolio.

During FY 2013-14 the System sold approximately \$100 million of its personal loan portfolio to a financial institution, while retaining the servicing of the portfolio.

During FY 2014-15 the System did not sell any loans from the investment portfolio.

Insurance

The System provides life insurance that guarantees the payment of the outstanding principal balance of mortgage, personal and cultural trip loans in case of the death of a Member. Members who obtained these loans from the System pay the coverage in its entirety. The guarantee insurance reserve for life insurance on loans to plan members is revised each year and

adjusted accordingly based on the annual higher claim amount of a five-year period increased by a management determined percentage.

Investments

As of June 30, 2017, the System Enabling Act allowed that the System to invest the assets not used to cover operational and administrative expenses. Said investments were made in certain types of securities. The Enabling Act authorized the System to invest in fixed income securities, in capital stock of any corporation organized under the laws of the Commonwealth, any state of the United States of America or any foreign jurisdiction and in risk capital. The Act also provided that the System invested up to 15% of its assets in income-yielding real estate and restricts the amount of assets which the System may invest in foreign jurisdictions. At present, the System may only invest up to 10% of its assets in foreign jurisdictions.

The System's Board of Trustees had investment authority and sole fiduciary responsibility for the management of the System's assets. The Board is guided by the System's Investment Committee, management, and the staff in the Actuarial Studies and Investments Office who carry out the daily activities of the investment program.

The System's goal was to efficiently and effectively manage investments to achieve the highest possible return at an acceptable level of risk. The System's investment portfolio is diversified into several asset classes, so that over the long run any weaknesses in one area are offset by gains in another. The Board follows a strategic asset allocation policy that targets the percentage of funds to be invested in each asset class.

The System's investments are managed in accordance with the Statement of Investment Guidelines for Public Plans set forth by the Government Development Bank. On June 23, 2017, the Legislature approved the Other Assignments for the Fiscal Year 2017-2018 Joint Resolution, which among other things, ordered the System, JRS, and TRS to liquidate their assets and pass the net proceeds to the Treasury Department of the Commonwealth. On July 20, 2017 the System sold investments amounting to approximately \$297 million. The table below describes the System's investment portfolio at fair value.

INVESTMENT PORTFOLIO

	(In Thousands)				
	2013	2014	2015	2016	2017
Bonds and notes:					
U.S. government and sponsored agencies' securities	\$184,848	\$168,561	\$147,833	\$63,595	\$25,212
Municipal Bonds	25,730	11,152	8,791	3,689	0
SSGA Bond Index	193,046	69,046	58,823	59,214	0
U.S. Corporate Bonds	910,780	1,019,457	548,999	285,123	79,750
COFINA Bonds	229,819	138,123	89,139	93,484	58,224
Capital Stock:					
US Equity	860,584	681,537	292,145	161,647	120,548
Non-US Equity	0	0	116,855	0	61,201
Alternative Investments:					
Private Equity Investments	<u>55,067</u>	<u>54,146</u>	<u>54,026</u>	<u>47,461</u>	<u>87,629</u>
Total	\$2,459,874	\$2,142,022	\$1,316,611	\$714,213	\$432,564

Source: Audited Financial Statements of the Employees Retirement System (2012-2013)

Preliminary Unaudited Financial Statements of the Employees Retirement System (2014-2016)

Totals may not add due to rounding.

Summary of Loan Portfolio

The following table sets forth by categories the principal amount of loans made by the System to Members during the five-fiscal year period ended June 30, 2017:

LOAN PORTFOLIO

	(In Thousands)				
	2013	2014	2015	2016	2017
Mortgage Loans	\$160,109	\$164,416	\$170,785	\$169,658	\$161,495
Personal Loans	559,270	406,394	392,378	379,370	322,926
Cultural Trip Loans	<u>71,782</u>	<u>48,569</u>	<u>44,454</u>	<u>47,968</u>	<u>39,022</u>
Total	\$791,161	\$619,379	\$607,617	\$596,996	\$523,443

Source: Audited Financial Statements of the Employees Retirement System (2013-2015)

Preliminary Unaudited Financial Statements of the Employees Retirement System (2016-17)